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The Effect of Organizational Internal Factors on the Performance of Cooperative Governance in Malaysia

Rusman Ghani^{1*}, Shafawaty Mohamad Shabri²

¹*Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia*

²*Faculty of Business & Communication, Universiti Malaysia Perlis, Malaysia*

Abstract: This study aims to gain a comprehensive explanation and understanding of the internal issues and problems faced by cooperative management that may affect the performance of cooperatives in Malaysia. The objective of this study is to determine whether the factors of cooperative management leadership, cooperative organizational culture, and the effectiveness of the cooperative's internal audit committee affect the cooperative's governance performance. A total of 420 questionnaires were distributed, and 144 questionnaires were obtained. The results of the analysis found that there is a non-significant relationship between management leadership and cooperative organizational culture with cooperative governance performance. However, the study's results found that the effectiveness of the cooperative's internal audit committee has a significant relationship with the cooperative's governance performance. The limitation of the study is that the study only focuses on large cluster cooperatives. Therefore, the findings of this study describe the governance system in large cluster cooperatives only. The study's findings on medium and small cluster cooperatives cannot be compared. Future research can be done by considering medium- and small-sized cooperatives. In addition, other independent variables can be added to the study model. This study has developed a cooperative governance performance model based on core values that can be used by the cooperative, especially as a guide to obtaining excellent cooperative governance.

Keywords: Cooperative Governance, Cooperative Sector, Malaysia

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* Corresponding author: E-mail: rusman@uum.edu.my

1. INTRODUCTION

Cooperatives have long been recognized as an important sector contributing to economic stability and creating job opportunities. The importance of the cooperative sector to the national economy is proven by the establishment of cooperatives in developing countries such as Asia, Africa, and South America, as well as industrialized countries such as Europe and North America (Azmah & Fatimah, 2008). At the world level, cooperatives are under the control of the International Cooperative Alliance (ICA), founded in 1895. ICA is an international nonprofit organization representing cooperatives and the cooperative movement worldwide. As of January 2015, ICA has represented 299 cooperative federations and organizations in 95 countries (ICA, 2015).

A good performance of the cooperative movement is important to encourage the public to get involved in the cooperative sector due to the services and benefits that will be shared through the profits obtained. However, the achievement of cooperative performance is still less encouraging. Following that, a comprehensive national plan, the National Cooperative Policy (NCP) 2011-2020, has been enacted with the main goal being to help cooperatives increase their contribution to economic development. Based on the NCP landscape 2011-2020, the achievement of policy implementation is measured through the performance of three main areas of success: gaining public confidence, good regulation and governance, and the development of cooperative economic activities (KPDNKK & SKM, 2010). Suppose the performance of these three main areas of success can be improved. In that case, the final goal of increasing the contribution of the cooperative sector to national output can be achieved, namely the performance of the cooperative movement as a whole.

However, the cooperative sector does not escape from facing various issues and challenges that affect its development, stability, and growth, even though great support is obtained from the government and government agencies. The issues and challenges in the cooperative sector are related to the governance of cooperatives, where the phenomenon of misconduct, abuse of power, and distortions among the management and members of the cooperative board are often debated by many parties, such as the public, academics and government agencies (Berita Harian, 2012; Utusan Malaysia, 2012; Maslinawati & Arun, 2013). Maslinawati et al. (2013) revealed that the absence of good governance and lack of integrity among the cooperative's management and board members has affected the cooperative's performance.

1.1 Problem Statement

Corporate governance is an important mechanism that will improve the performance of organizations in the public and private sectors worldwide (Abd Rahman, Mustafa, Zubaidah, & Roslani, 2015). Likewise, with the governance of cooperatives based on NCP 2011-2020, one of the performance indicators of cooperatives is good governance (KPDNKK & SKM, 2010). For cooperative organizations, governance is the process of administering and managing the business and affairs of the cooperative to increase business prosperity and corporate accountability with the main objective of achieving long-term value for the owners and subsequently influencing the cooperative's performance. Therefore, Suruhaniaya Koperasi Malaysia has emphasized to the cooperatives to ensure the implementation of good governance, which is a critical factor in the success of the cooperative movement. (SKM, 2012). This shows several issues in cooperative

governance that need to be addressed, considering that the cooperative movement in Malaysia is still considered underdeveloped compared to other countries, even though this sector plays an important role in the country's economic development. This should be acknowledged when the cooperative sector's contribution to Gross Domestic Product (GDP) is still low at 1% compared to neighboring countries such as Thailand, 19% and Vietnam, 25% (SKM, 2016). According to NCP 2011-2020, "issues that have hindered the progress of the cooperative movement over the years such as management, finance, leadership, and member involvement need to be effectively addressed". In other words, the issues that arise lead to the failure of cooperative governance, which affects its performance.

The failure of cooperative governance will cause several problems in the cooperative movement, affecting the performance of the cooperative movement as a whole. The performance of the cooperative movement is an important component of encouraging public involvement in the cooperative sector. This is because the lack of confidence in the services and benefits that the cooperative members can obtain will affect the movement of the cooperative. Mahazril, Hafizah, & Zuraini (2012) revealed that community participation in cooperative business activities is small and cannot contribute to cooperative performance. Cooperatives also face the problem of malpractice that affects reputation and causes a lack of public trust in cooperative management (Sacchetti & Tortia, 2012). Furthermore, past studies have shown internal problems faced by cooperative management, such as members' apathy, failure to democratize, mismanagement, poor management control, lack of skills, and financial scandals (Lees & Volkers, 1996; Birchall, 2004); Cornforth, 2004; Hernandez, 2006; Maslinawati et al., 2013). Among the critical weaknesses cooperatives face is the indifference and incompetence of management by the members of the cooperative, which affects the governance of the cooperative (Azmah & Fatimah, 2008).

1.1 Research Questions and Objectives

Based on the discussion above, the research questions for this study are as follows :

1. Is there a relationship between management leadership and cooperative governance performance?
2. Is there a relationship between organizational culture and cooperative governance performance?
3. Is there a relationship between the effectiveness of the internal audit committee and the performance of cooperative governance?

This study aims to comprehensively explain the effect of organizational internal factors on the performance of cooperative governance in Malaysia. In particular, the objectives of this study are as follows :

1. To determine whether the factor of management leadership affects the performance of cooperative governance.
2. To determine whether the factor of organizational culture affects the performance of cooperative governance.
3. To determine whether the factor of the effectiveness of the internal audit committee affect the performance of cooperative governance.

2. LITERATURE REVIEW

This study will describe the theory and past research on corporate governance and discuss how corporate governance can be used in cooperatives where cooperative ownership differs from company-owned businesses. The elements of cooperative governance on the performance of cooperatives in Malaysia were selected in this study due to the low quality of cooperative governance stated in the Annual Report of the Malaysian Cooperative Commission for each year, such as mismanagement, unethical behavior, financial scandals, and democratic failure. Furthermore, good cooperative governance is one of the indicators of cooperative performance, and if the performance increases, then the contribution to the GDP is also expected to increase (KPDNKK & SKM, 2010).

The elements of corporate governance that affect the performance and success of an organization are very important in the implementation of tasks and responsibilities entrusted to ensure that the course of operations is always on the right track (Hussain, 2007). In general, the International Federation of Accountants (IFAC) (2001) defines corporate governance as a process for an organization to be directed and controlled with a structure and decision-making process, accountability, control, and behavior at the top level of the organization. In addition, governance refers to the situation and mechanism of regulation and control in a group, system, or organization (Leviten-Reid & Fairbairn, 2011). Thus, corporate governance is a broad term encompassing the methods, structures, and processes by which businesses are directed and managed to achieve organizational goals and increase shareholder value and firm performance (Khan, 2011).

Corporate governance mechanisms are designed to reduce agency costs associated with separating ownership and control (Jensen & Meckling, 1976). This mechanism also helps align management goals used by stakeholders to improve firm performance (Chaghadari, 2011). For example, a study by Noor Afza & Ayoib (2009) on the relationship between family business and governance mechanisms with firm value among companies in Malaysia revealed that corporate governance mechanisms influence firm value. However, not all elements of governance mechanisms are significant and have different effects between family and non-family businesses. The findings of their study show that family businesses adopt a separate leadership structure while board size contributes positively to the better performance of non-family businesses. So, the corporate governance mechanism can be linked to the separation of ownership and control.

The corporate governance model practices a one-tier system where the board of directors is the highest body in the company. Shareholders do not have full control over management's decisions (Chaghadari, 2011). In other words, the company's board of directors is an important component of the company's internal governance that has the power to appoint, fire, and compensate the highest-level decision managers (Mohd Hassan, Rashidah, & Mahenthiran, 2008). The company's board of directors is also the highest internal party in the governance system and is responsible for monitoring and balancing management (Gillan, 2006). This system is different at the cooperative level, where although the board is an important party in the governance of the cooperative but, the shareholders that are members of the cooperative have the right to speak in every decision of the board or management (SKM, 2015).

3. RESEARCH METHODOLOGY

This study uses the data collection method through primary sources through structured questionnaires. Structured means that the researcher arranges the questions with a cover letter explaining the purpose of data collection (Zainudin, 2012). The questions that are arranged are in the form of statements. This method is suitable because there are many respondents scattered throughout the states of Peninsular Malaysia. In addition, a more accurate response can be obtained because there is no influence, no signals, no facial expressions, and no interference from the interviewer, and respondents can answer the questions according to their comfort (Zainudin, 2012). This will ensure the answer's accuracy (Zainudin, 2012). Three completed questionnaires were sent to each large cluster cooperative by post, and a self-addressed (stamped) return envelope was included. This also means 510 questionnaires will be sent to all large cluster cooperatives. However, the researcher conducts phone calls and personal visits if the study sample size is still insufficient.

After the sampling, the sample size set is as many as 170 cooperatives consisting of large cluster cooperatives. The list of names of large cluster cooperatives for 2014 was obtained from Suruhaniaya Koperasi Malaysia. Then, three copies of the questionnaire were distributed to each cooperative to their respective addresses via post, and three respondents in each cooperative were asked to answer the questionnaire. The questionnaire was sent together with a cover letter stating the purpose of the data collection, and the respondents were asked to answer the questions freely and without prejudice. The cover letter also clearly states the parties who should answer the questionnaire: cooperative board members, senior management staff, and cooperative members. In addition, on each copy of the questionnaire, it stated who should answer it. The researcher has also contacted the cooperative by phone and email to explain in more detail who should be involved in answering the distributed questionnaire. This is to ensure that only the designated respondents answer the questionnaire.

The total number of large cluster cooperatives for the year ended 2014 was 170 cooperatives, where three respondents in each cooperative were required to answer the questionnaire. However, as many as 30 cooperatives were used for the pilot survey. This means that the number of large cluster cooperatives involved in the study is as many as 140. Therefore, the total sample for this study is 420 respondents (140 cooperatives x 3 respondents) consisting of cooperative board members, senior management staff, and cooperative members who need to answer the questionnaire. Therefore, 420 questionnaires were sent by post to the large cluster cooperatives in Peninsular Malaysia.

As a result, a total of 144 questionnaires were successfully collected. After performing a screening analysis, six questionnaires were found to have a dubious response pattern (straight lining), and 37 questionnaires were outliers. Finally, only 101 questionnaires could be used for analysis purposes. The amount of this questionnaire is sufficient for analysis using Partial least squares structural equation modeling (PLS-SEM) where the minimum sample size required is ten times the maximum number of arrows pointing toward any latent variable (latent variables) in the PLS-SEM trajectory model (Hair, Jr. et al., 2014).

This study developed three hypotheses to answer the research questions stated in section 1.2 above. The list of research hypotheses that have been developed is shown in Table 1 below.

Table 1. List of Proposed Research Hypotheses

H ₁ :	Management leadership has a significant relationship with cooperative governance performance
H ₂ :	Organizational culture has a significant relationship with performance cooperative governance performance.
H ₃ :	Internal audit committee effectiveness has a positive relationship, which is significant in the performance of cooperative governance.

4. RESULT

Overall, three hypotheses were tested in this study. The study results found that the three hypotheses tested had a direct relationship between the study constructs (H1, H2, H3), showing a positive relationship. However, only one of the three hypotheses, namely H3, was found to have a significant relationship with cooperative governance performance. Table 2 below summarizes the results of the study.

Table 2. Summary of Research Hypothesis Results

H ₁	Management leadership is related to governance performance cooperative management	Not Supported
H ₂	Organizational culture is related to governance performance cooperative.	Not Supported
H ₃	The effectiveness of the internal audit committee positively related to the performance of cooperative governance.	Supported

4.1 Relationship between Management Leadership and Cooperative Governance Performance

In this study, the results were different from what was expected. The results found a non-significant relationship between management leadership and cooperative governance performance. The results of this study are inconsistent with the findings from the study by Gil et al. (2005), Obiwuru et al. (2011), Cavazott et al. (2012), Braun et al. (2013) and Castelli (2016), but in line with findings from studies by McColl-Kennedy & Anderson (2002) and McMurray, Islam, Sarros, & Pirola-Merlo (2012). The results of McColl-Kennedy & Anderson's (2002) study found that transformational leadership implemented in organizational management can negatively influence employee performance if there are negative emotions such as disappointment or anger, which also affect organizational performance. Therefore, for cooperative management leadership, if the responsibilities carried out are not based on good leadership characteristics, then issues of misconduct, abuse of power, and irregularities will arise among the members of the cooperative board and the cooperative management, which in turn will have an impact on administration and management of the cooperative itself. In other words, due to the different behaviors or leadership styles practiced by each board member in the cooperative, the managerial leadership factor is not important in improving cooperative governance performance.

In addition, the explanation or possibility that contributed to the results of this study is due to board member's actions in the management of the cooperative being less limited by external control, namely by the members of the cooperative. This is because when the

board member has been elected and appointed by the cooperative members in the annual general meeting, the board member is free to carry out the responsibilities handed over by the cooperative members and lead according to their own leadership style. The findings of a study by O'Sullivan & Diacon (2003, cited in Zelhuda, Abdul Ghafar, & Bayu, 2014) also concluded in their study that cooperative management has no external pressure and control for them to show their respective financial performance because the shares cooperatives are not traded in the open market. Cooperative shareholders also do not have primary control because the activities planned by the cooperative board are managed and implemented by the cooperative management. They only have to take care of the interests of the cooperative shareholders by making a profit on every activity carried out. So, there is no threat to the management of the cooperative for acquisition even if it does not show good performance.

Therefore, the results of this study, which found that management leadership does not have a significant relationship with the performance of cooperative governance, reinforces the findings of O'Sullivan & Diacon's study (2003, cited in (Zelhuda et al., 2014a). Therefore, to create a stable management leadership, board members and the management should always refer to the Cooperative Governance Guidelines (GP27) issued by Suruhaniaya Koperasi Malaysia, which act as a mechanism to foster spiritual values within every member of the Board and management of the cooperative to be able to administer and manage the cooperative more efficiently, transparently and responsibly (SKM, 2016).

4.2 Relationship between Organizational Culture and Cooperative Governance Performance

The study also found that organizational culture factors have a non-significant relationship with cooperative governance performance. The results of this study reject the hypothesis formed and are not consistent with the findings of previous studies in various fields of study (Cameron & Freeman, 1991; Zehir et al., 2011; Shahzad et al., 2012; Gideon A, Sonrandein, & Georgina.I., 2013; Uzkurt et al., 2013; Goromonzi, 2016). According to NCP 2011-2020, among the weaknesses raised against the effectiveness of the implementation of NCP 2002-2010 is the low entrepreneurial culture by those who manage cooperatives (KPDNKK & SKM, 2010). This may be due to the inefficient and innovative attitude of board members and the management in trying to achieve the goals that have been set.

As stated in the Cooperative Act 1993, the values of cooperatives should become a culture in cooperatives, especially in terms of entrepreneurship, which, if practiced, will positively affect the cooperative's governance and, subsequently, the performance of the cooperative as a whole. Similarly, if the core values of the proposed organizational culture, namely, brotherhood (ukhwah), consultation, caring, teamwork, respect, and quality, should be practiced among board members and the management of the cooperative to overcome the weak entrepreneurial culture, however, suppose some of them do not practice or care about these values. In that case, this cooperative organization's culture is ineffective in improving the performance of cooperative governance.

4.3 Relationship between the Effectiveness of the Internal Audit Committee and the Cooperative Governance Performance

The study also found a significant positive relationship between the internal audit committee's effectiveness and cooperative governance's performance. This finding is interesting because this factor is a new variable added to the cooperative governance performance model that was developed. The results of this study are in line with the findings of previous studies conducted in various fields of study by Zulkarnain et al. (2009), Salameh et al. (2011), and Al-Baidhani (2016). The internal audit committee is a body that manages cooperative organizations and has an equally important role as a board member and cooperative manager. This leads to the addition of the effectiveness factor of the internal audit committee on the performance of cooperative governance.

The study's results supported the hypothesis that an effective internal audit committee with core values such as truth, reliability, sincerity, direction, commitment, and efficiency can improve the performance of cooperative governance. Next, an explanation of the effectiveness factors of the internal audit committee produces a significant relationship with the governance performance of the cooperative, which can be proven by the role of the internal audit committee, which is an independent evaluator and is a guide for the cooperative to comply with existing laws, policies and procedures. Indirectly, the role of the internal audit committee is seen to have an impact on the governance and supervision of the cooperative. Controlled governance from any issue involving legal action helps to impact the improvement of cooperative governance performance.

5. CONCLUSION

Based on the test results above, the study's three objectives, namely, determining whether the factors of cooperative management leadership, cooperative organizational culture, and the effectiveness of the cooperative's internal audit committee affect the performance of cooperative governance in Malaysia, have been achieved. The research results obtained are considered valid and reliable with the research process carried out based on the scientific method starting from the statement of the problem, the formation of research objectives, the construction of a conceptual working model, the construction of instruments, the data collection process and ending with the data analysis procedure.

The results of this study contribute to the literature spotlight when it has confirmed a significant relationship between the effectiveness of the internal audit committee and the performance of cooperative governance. At the same time, the factors of management leadership and organizational culture do not have a significant relationship with the performance of cooperative governance. In terms of addition to the literature, this study has contributed to the addition of a new variable, namely, the effectiveness factor of the internal audit committee, which has a significant positive relationship with the performance of cooperative governance in Malaysia.

In addition, the results of this study are expected to provide input to Suruhaniaya Koperasi Malaysia, which is the body that regulates the cooperative movement in Malaysia, to determine the causes and consequences of governance issues in cooperatives. This input can also be used as content in seminars or training conducted by Suruhaniaya Koperasi Malaysia for parties involved in cooperative governance. By disseminating information related to factors that can affect the performance of cooperative governance, it is hoped

that cooperatives will be established and ensured that they are administered and managed by parties with integrity and quality.

6. LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The study conducted only focused on large cluster cooperatives. Therefore, the findings of this study describe the governance system in large cluster cooperatives only. A comparison of the study results with medium and small cluster cooperatives cannot be done. Since no empirical study has been conducted on the study sample to study the factors that influence the performance of cooperative governance in the Malaysian context, a comparison with the results of previous studies cannot be made. Therefore, explaining the relationship between the tested variables cannot be justified more effectively.

Future studies can determine other factors as independent variables in the study model. A study that uses the same conceptual framework but is targeted at all types of cooperative clusters in Malaysia needs to be done. This is because this study only focuses on large cluster co-operatives since the largest revenue of co-operatives in Malaysia is largely contributed by large cluster co-operatives. A comprehensive study needs to be done so that the understanding related to the phenomenon of cooperative governance in Malaysia can be clearly known.

This study uses a questionnaire method to collect data on the performance of cooperative governance in Malaysia. However, the low response rate is feared to affect the overall results of this study. Therefore, it is hoped that a more detailed study such as a qualitative or case study, will be conducted in the future. This is also to support and strengthen the findings of this study.

In this study, the performance of cooperatives is only measured by looking at non-financial factors, such as cooperative governance, because the purpose of this study is only to unravel the governance problems that occur in cooperatives. Therefore, future studies can focus on the financial factors of cooperatives. By testing both elements, it is hoped that the factors that are expected to affect the performance of the cooperative as a whole will be solidified and confirmed further.

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